

Governor McCallum's Health Care Listening Session
August 28, 2002

Thank you, Governor McCallum, Commissioner O'Connell, and Secretary Dube for hosting this listening session on health care costs. It's nice to see you in Central Wisconsin and for you to take the opportunity to hear from residents of this area.

I am John Smylie, Chief Administrative Officer of Security Health Plan of Wisconsin, Inc. Security is an HMO sponsored by Marshfield Clinic. We serve over 115,000 members in a 28-county area in Central, Northern and Western Wisconsin. We are very concerned about the rapidly rising costs of health care and health insurance and the effect on residents and businesses in our region.

Health insurance premiums have been rising at double-digit percentage increases for the past four years, and are projected to continue at this pace for the foreseeable future. In a recent *USA Today* article, Uwe Reinhardt, health economist, projects that we will have double-digit increases for the next decade.

The crisis we are experiencing is not so much a health care crisis, but a crisis of health care costs. Health insurance premiums are consuming an increasing share of our economy. Health care as a percent of GDP has grown from 7% in 1970 to 14% in 2002.

Family health insurance premiums in our area are approaching \$800 to \$1,000 per month for comprehensive coverage. This equates to \$5-6 per hour for a full-time employee. This competes with the very wage paid for many jobs in rural Wisconsin. Most of this cost is borne by employers and is limiting their ability to increase wages and salary.

As a response, employers are shifting costs to employees through premium sharing and/or raising deductibles and co-pays. The underlying problem, though, is driven by the increasing costs of health care itself and utilization of those services.

There are numerous causes of increased costs and utilization including:

- Aging of our population and the increase in health needs associated with the aging process.
- Technology brings the latest/greatest breakthroughs, but comes with a very high price tag.
- New procedures that allow people to live longer, return to health sooner, or improve lifestyle. Thirty years ago, a farmer, age 50, would have his knees wear out, and the solution was to stop farming. Today, if his or her knees wear out, a prosthetic replacement is available which can return the farmer to productive farming for another 15 years. This, however, comes at a cost of \$35,000 (national average).

- Changing “consumer” expectations for living longer and at a higher health status. This will be increasingly more pronounced, as the baby boomers don’t age gracefully.
- A disconnect between consumers who use services and the payment for those services.
- An increasing array of pharmaceuticals and the direct-to-consumer advertising has allowed pharmaceutical companies to make “patients out of people.”
- Underfunding of government-based reimbursement to providers of Medicare and Medicaid. The low government reimbursement, in most circumstances below the actual cost to provide services, causes providers to cost shift to private insurers and patients.

This last problem is very significant in Wisconsin. Wisconsin providers receive reimbursement for Medicare services that are some of the lowest in the country. This is a result of an arcane Medicare system based on historical costs.

Wisconsin’s Medicare shortfall is estimated at \$1 billion compared to the national average payment level. This one billion dollar shortfall is recovered through cost-shifting to private insurers and patients. That is an unfair tax on Wisconsin and has led to our commercial health insurance rates being some of the highest in the country.

A study in 2001 by Milliman USA, using standardized benefits and a standard cohort of members, found Wisconsin commercial rates to be the second highest in the country. Compared to states with higher Medicare reimbursement, Wisconsin commercial health insurance costs were 20% higher than Florida, 31% higher than Louisiana, and 44% higher than California.

This unfair tax on Wisconsin is a serious concern from the standpoint of keeping Wisconsin competitive in this national and global economy.

The last item I would like to discuss, as to the drivers of cost, is how unhealthy lifestyles impact on health and health care costs.

There is sufficient evidence that links lifestyle choices to health status. Most of us are familiar with links between smoking, alcohol consumption, poor nutrition, lack of exercise, unsafe sex, and use of seatbelts on our health status. Many of these habits have long-term detrimental effects on our health. We have knowledge and awareness of the issue, yet lack motivation or willpower to make healthier choices.

In Marshfield, a Healthy Lifestyle Initiative, sponsored by Marshfield Clinic, is taking hold in the community to address some of the causes.

The problem we face is an epidemic of diabetes, heart disease and high health care costs due to overeating and lack of physical fitness. We believe that as much as

20% of our health insurance premiums are directly related to inactivity and over-nutrition. This approaches \$200 per month per family.

The Healthy Lifestyle Initiative is a grassroots community initiative designed to increase awareness of the problems associated with being overweight and underactive:

- To develop community solutions to create healthier options and choices within our communities
- To educate community members to healthier lifestyle choices
- To build a coalition of people to design healthier communities

The work to date has included a lifestyle symposium bringing together national speakers, community leaders and state officials.

An education program presented to all teachers and administration in the Marshfield School District, resulting in changes to the school menus, cafeteria choices and vending machines.

Employers, such as Security Health Plan, have become involved through revision of vending machine menus, posting of caloric/fat data on vending machines, hosting a healthier employee recognition luncheon, and encouraging 30 minutes of activity per day.

To tell you more about this, Doctor Bill Washington, of Marshfield Clinic and a leader in the Healthy Lifestyle Initiative, will also offer testimony today. This is an issue that everyone can participate in and can make a difference in our health and health care costs.

I would like to conclude my remarks today by offering up how I think government can help in the health crisis. Please recognize that part of the issue is that there are multiple facets to the problem and it is easy for everyone to blame someone else. We do need to encourage dialog on this topic and develop a societal approach.

The role of government, in my estimation, would best be served in the following ways:

1. Minimize the cost-shifting to the private sector caused by Medicare/Medicaid underfunding of providers. The work at the Governor's Health Summit on Medicare Underfunding is an excellent start, and the time is now to engage our Congressional delegation, as well as other states, in a similar situation to attain parity for Medicare payments. We all pay into Social Security at the same rate and should be entitled to the same benefit.

2. Allow businesses to have more flexibility in plan design for health insurance by limiting the number of mandates. Mandates raise the cost of health insurance and limit a company's ability to offer cost-effective plans to its employees.
3. Focus on the health status of the population. Health insurance costs have a direct correlation to our health status. Support and promotion of healthier lifestyles, as outlined in the Health People 2010, is a solid start, yet needs greater promotion and integration into our communities.

Governor McCallum, I applaud your WHL initiative to encourage State employees to improve their health through increasing physical activity by 30 minutes per day and reducing calorie intake. Your challenge to each department to develop councils to coordinate is an excellent means to move this to the grassroots level and draw on the energy and creativity of our people. You serve as both a leader and role model in this area!

I would be happy to answer any questions that you may have at this time.